

THE HONORABLE JAMES L. ROBART

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

MICROSOFT CORPORATION,  
Plaintiff,  
vs.  
MOTOROLA, INC., et al.,  
Defendants.

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MOTOROLA MOBILITY LLC, et al.,  
Plaintiffs,  
vs.  
MICROSOFT CORPORATION,  
Defendant.

Case No. C10-1823-JLR

EXCERPTS OF PRIOR COURT  
ORDERS UPON WHICH MICROSOFT  
INTENDS TO RELY *IN MICROSOFT'S  
OPENING STATEMENT*

Contemporaneously herewith, Microsoft filed a set of excerpts from this Court's prior orders upon which Microsoft intends to rely at trial. Provided below is a subset of those excerpts that includes those on which Microsoft intends to rely during its opening statement.<sup>1</sup>

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<sup>1</sup> Microsoft specifically reserves the right to introduce other findings and excerpts as necessary at trial.

**A. The Court's April 19, 2013 Findings of Fact and Conclusions of Law (ECF 673)**

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25	As the court has previously found: "In order to reduce the likelihood that owners of [standard] essential patents will abuse their market power, many standard setting organizations, including the IEEE and ITU, have adopted rules relating to the disclosure and licensing of essential patents. The policies often require or encourage members of the standards setting organizations to identify patents that are essential to a proposed standard and to agree to license their essential patents on reasonable and non-discriminatory ("RAND") terms to anyone who requests a license. Such rules help to ensure that standards do not allow essential patent owners to extort their competitors or prevent competitors from entering the marketplace." (6/6/12 Order at 3-4; see also Ex. 1414 at 28,036-37 (describing basic elements of SSO intellectual property policies); 11/16/12 Tr. at 19:3-24, 21:24-23:7 (Simcoe Testimony) (same); Exs. 1575 (Guidelines for Implementation of Common Patent Policy of the ITU-T/ITU-R/ISO/IEC) and 1568 (IEEE-SA Standards Board By-Laws).)
36	All of Motorola's LOAs indicated that it would "grant to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions" licenses conditioned on reciprocity. <sup>6</sup> (Ex. 2838 at MOTM_WASH1823_0000036, 039, 046, 053, 057, 061; 11/20/12 Tr. at 33:21-34:12 (Dailey Testimony).)
47	The IEEE Operations Manual in place at the time that Motorola and Symbol made their initial 802.11 RAND commitments provided that "[p]atent holders shall submit to the Patent Committee of the IEEE Standards Board, prior to any significant drafting of the standard, a draft of their license that assures that the technology will be made available at nominal competitive costs to all who seek to use it for compliance with an incorporated IEEE standard." (Ex. 1130 at MS-MOTO_1823_00005246490 (§ 6.3.2) (emphasis added).)
52	When the standard becomes widely used, the holders of SEPs obtain substantial leverage to demand more than the value of their specific patented technology. This is so even if there were equally good alternatives to that technology available when the original standard was adopted. After the standard is widely implemented, switching to those alternatives is either no longer viable or would be very costly. (11/13/12 Tr. at 140:2-23, 141:18-23 (Murphy Testimony); Ex. 1414 at 28036.)
55	The ability of a holder of an SEP to demand more than the value of its patented technology and to attempt to capture the value of the standard itself is referred to as patent "hold-up." (11/13/12 Tr. at 140:2-23, 141:18-23 (Murphy Testimony); Ex. 1414 at 28036; see also 11/19/12 Tr. 166:24-167:22 (Schmalensee Testimony) (explaining that the "essence of hold-up" is that while ex ante competition constrains what a patent holder can obtain for access to its patent, ex post, the technology in the standard does not face that competition).)
56	The threat of hold-up increases as the standard becomes more widely implemented and firms make sunk cost investments that cannot be recovered if they are forced to forego implementation of the standard or the standard is changed. (11/13/12 Tr. at 143:1-18)

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2		(Murphy Testimony); 11/16/12 Tr. at 86:20-87:2 (Lynde Testimony).)
3	57	Hold-up can threaten the diffusion of valuable standards and undermine the standard-setting process. (Ex. 1414 at 28036; 11/13/12 Tr. at 144:25-145:11, 147:22-148:13 (Murphy Testimony).)
4	58	In addition to harming firms that are forced to pay higher royalties, hold-up also harms consumers to the extent that those excess costs are passed onto them. (Ex. 1414 at 28036; 11/13/12 Tr. at 144:25-145:6, 147:22-148:13 (Murphy Testimony).)
5	59	Hold-up by one SEP holder also harms other firms that hold SEPs relating to the same standard because it jeopardizes further adoption of the standard and limits the ability of those other holders to obtain appropriate royalties on their technology. (11/13/12 Tr. at 144:25-145:11 (Murphy Testimony).)
6	60	Indeed, Motorola's expert, Dr. Richard Schmalensee, acknowledged that "the RAND commitment and the whole apparatus exists [sic] to deal with hold-up." (11/19/12 Tr. at 142:13-16, 157:20-23 (Schmalensee Testimony).)
7	61	Similarly, the Federal Trade Commission ("FTC") has stated that "[t]he most common mechanism used by SSOs to attempt to prevent patent hold-up is the RAND commitment." (Ex. 1414 at 28037.)
8	62	Complex industry standards like the H.264 and 802.11 Standards can require the use of hundreds or thousands of SEPs held by dozens of patent holders. (Exs. 1150-54 (listing patents claimed or determined to be essential to the H.264 Standard and patent holders that made blanket disclosures); Exs. 1156, 1158-59, 1164 (listing patents claimed or determined to be essential to the 802.11 Standard and patent holders that made blanket disclosures); 11/16/12 Tr. at 108:21-109:8 (Lynde Testimony) (the number of SEPs related to the 802.11 Standard "generally is acknowledged to be in the thousands").)
9	63	High-tech products can comply with dozens or even hundreds of different standards. For example, a typical personal computer ("PC") implements as many as 90 different formal standards and over 100 informal interoperability standards. (11/16/12 Tr. at 128:2-10 (Lynde Testimony).)
10	154	The H.264 Standard resulted from the contributions of roughly 170 entities that submitted over 2,300 documents. (11/14/12 Tr. at 108 (Orchard Testimony).) H.264 is a large and technically complex standard developed with the goal of providing significantly improved compression compared to prior video standards. (Ex. 610; 11/13/12 Tr. at 211 (Sullivan Testimony).)
11	157	Approximately 33 United States companies have enumerated their declared-essential H.264 Patents. All of these patents are subject to the RAND commitment. Nineteen additional companies have provided "blanket" LOAs to the ITU obligating their patents to the RAND commitment. (See Ex. 1544.)
12	281	Windows is an operating system that "provides an abstraction over the hardware, and presents an application interface" so that "third parties can write programs that run on the computer." (11/13/12 Tr. at 25-26 (DeVaen Testimony).) With each version of Windows, Microsoft adds thousands of features which typically build on the capabilities of previous releases. (Id. at 28-29.) For example, the new features of Windows 7 are described in two voluminous books. (Exs. 1408-09.) Video encoding and decoding is only a tiny part of what the Windows software does and Windows supports many other video compression

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2		standards in addition to H.264. (11/13/12 Tr. at 34 (DeVaen Testimony).)
3	289	The court concludes, based on this evidence, that Motorola's H.264 SEPs provide only
4		minor importance to the overall functionality of Microsoft's Windows product. Windows
5		is first and foremost an operating system designed to permit various applications to operate
6		vis-à-vis a user. As explained by Microsoft at trial, the Windows operating system has vast
7		functionality completely unrelated to any video playing. Only when a Microsoft Windows
8		user chooses to play interlaced video would Windows employ the functionality of
9		Motorola's H.264 SEPs, which in turn only provide a portion of the coding tools necessary
10		to view the interlaced video. Moreover, the interlaced video would still play without
11		Motorola's H.264 SEPs, it might just be 5-8 % slower.
12	299	The court concludes, based on this evidence, that Motorola's H.264 SEPs provide only
13		minor importance to the overall functionality of Microsoft's Xbox product. Although it is
14		important that the Xbox have the ability to play video, the evidence suggests that much of
15		that video will be in progressive form. Motorola points to Xbox Live as a source of such
16		video, but Xbox Live does not support interlaced video at this time, and in the past it
17		appears that video over Xbox Live was also in progressive form. (See 11/15/12 Tr. at 31
18		(Del Castillo Testimony).) Similarly, Motorola offered evidence that some AT&T U-verse
19		content is interlaced and could be received on the Xbox after special software was added,
20		but this software is no longer available and was installed by only 10,000 to 11,000 users
21		out of 35 million Xbox owners. (Id. at 24.)
22	315	The 802.11 Working Group spent seven years developing the first draft of the 802.11
23		Standard. (11/15/12 Tr. at 92-93 (Gibson Testimony).)
24	316	The Working Group issued its first standard, "IEEE 802.11," in 1997 (referred to as
25		"802.11-1997").
	318	The 802.11 Standard today is immense and complex; the current version is 2,793 pages
		long. (Ex. 386A.)
	335	Since 1994, approximately 92 companies have identified—in LOAs—over 350 patents
		and 30 patent applications as essential to the 802.11 Standard.11 (11/15/12 Tr. at 99
		(Gibson Testimony); Exs. 7, 1592.) Companies may also provide "blanket" LOAs to the
		IEEE, which do not identify specific patents. (Supra ¶ 43.) As stated previously, through
		"blanket" LOAs, SEP holders commit to license unspecified patents or pending
		applications for a particular standard. (Id.) At this time, approximately 59 companies have
		filed these blanket LOAs for the 802.11 Standard, including wireless communication
		industry leaders such as Atheros, Broadcom, Qualcomm, Research in Motion, and Intel.12
		(Exs. 7, 1592.) Thus, according to the expert testimony of Dr. Lynde, there are possibly
		thousands of essential patents to the 802.11 Standard at any one time. (See 11/16/12 Tr. at
		108-109 (Lynde).)
	456	There are at least 92 entities that own 802.11 SEPs. (Supra ¶ 335.) If each of these 92
		entities sought royalties similar to Motorola's request of 1.15 % to 1.73 % of the end-
		product price, the aggregate royalty to implement the 802.11 Standard, which is only one
		feature of the Xbox product, would exceed the total product price. The court concludes
		that a royalty rate that implicates such clear stacking concerns cannot be a RAND royalty
		rate because such a royalty rate does not stand up to the central principle of the RAND
		commitment—widespread adoption of the standard. As Dr. Lynde explained, "[i]f

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2		everyone wanted the same deal [as Motorola], it would quickly make the end-product price untenable commercially.” (11/16/12 Tr. at 179:1-8 (Lynde Testimony).)
3	457	Additionally, the court concludes that stacking concerns are heightened in this case because Motorola’s 802.11 SEP portfolio provides only minimal contribution to the 802.11 Standard.
4	531	Additionally, the court conducted a comprehensive and detailed examination of the importance of each patent in Motorola’s H.264 SEP portfolio to the H.264 Standard or to Microsoft’s products. This examination revealed that although some of the patents contributed to the H.264 Standard, others provided only minimal contribution due to the availability of alternative technology. The examination further revealed that, of the patents contributing to the H.264 Standard, Motorola did not provide the inventive technology, but instead built upon already-existing technology.
5	533	Finally, the court concludes that Motorola’s H.264 SEP portfolio only constitutes a sliver of the overall technology incorporated in the H.264 Standard. Indeed, the largest technology contributor to the H.264 Standard was Telenor Group, which contributed many of the core innovations of H.264 and submitted the August 1999 proposal that became the basis of the first draft of the design. (11/13/12 Tr. at 215 (Sullivan Testimony); 11/14/12 Tr. at 115 (Orchard Testimony).) Telenor decided not to seek patents on its contributions and notified the JVT of its decision. (11/14/12 Tr. at 52 (Sullivan Testimony); 11/14/12 Tr. at 115 (Orchard Testimony).)
6	536	In sum, Motorola did not demonstrate that its H.264 SEP portfolio provided significant contribution to the H.264 Standard or would provide significant technological value to Microsoft’s products.
7	576	Finally, the court must consider Motorola’s contribution in relation to the standard as a whole. The amount of technology involved in the 802.11 Standard is immense. Indeed, the contributions by the University of Hawaii in developing ALOHAnet constitute the basis for the 802.11 Standard. (11/15/12 Tr. at 90-91 (Gibson Testimony).) Additionally, the 802.11 Working Group spent seven years developing the first draft of the 802.11 Standard. (Id. at 92-93.) Over 1,000 companies have participated in the development of the 802.11 Standard. (Id. at 94-95; Ex. 514.) The 802.11 Standard today is large and complex; the current version is 2,793 pages long. (Ex. 386A.) Approximately 92 companies have identified essential patents or submitted blanket LOAs to the IEEE. With this large scale contribution in mind, the court finds that Motorola’s 11 relevant SEPs constitute only a sliver of the overall technology incorporated into the 802.11 Standard.
8	585	Marvell also considers the ARM rate an appropriate benchmark because the rate is based on the selling price of the chip, not the sale price of the end-user product into which the chip is embedded. According to Ms. Ochs, the denominator in the royalty calculation must be the price of the chip rather than the price of the user end-product because even a low royalty rate applied to an expensive end-product would quickly outstrip Marvell’s profit margins on its chips. (See 11/14/12 Tr. at 68, 69:1-3 (Ochs Testimony).) For example, a 1 % royalty on a chip placed in an \$80,000.00 Audi A8 would be \$800.00, or about 267 times the retail price of the chip. (See id. at 69:1-3.) Ms. Ochs further testified that, not only would a royalty rate based on the consumer end product often be cost-prohibitive, it would also be impractical because when Marvell sells the chips it usually does not know



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2		their intended end use. (11/14/12 Tr. at 68:5-25, 69:15-16 (Ochs Testimony).) Finally, the
3		chips provide the same functionality in each host device regardless of the end cost of the
4		device, so it is logical that the royalty rate be the same across all devices. (See id. at 62:17-
5	587	20.) Likely because of these reasons, Ms. Ochs testified that she had never heard of a chip
6		maker paying a running royalty on the end-product price of its consumers' products. (Id. at
7		70:7-10.)
8		Thus, the court concludes that Marvell's experience with the ARM rate shows that the 1 %
9		rate represents a reasonable "high ceiling" royalty rate in semiconductor intellectual
10		property licensing.
11	Page	In conclusion and as explained herein, the court concludes as follows:
12	207	<ul style="list-style-type: none"> <li>• The RAND royalty rate for Motorola's H.264 SEP portfolio is 0.555 cents per unit; the</li> <li>upper bound of a RAND royalty for Motorola's H.264 SEP portfolio is 16.389 cents per</li> <li>unit; and the lower bound is 0.555 cents per unit. This rate and range are applicable to both</li> <li>Microsoft Windows and Xbox products. For all other Microsoft products using the H.264</li> <li>Standard, the royalty rate will be the lower bound of 0.555 cents.</li> <li>• The RAND royalty rate for Motorola's 802.11 SEP portfolio is 3.471 cents per unit; the</li> <li>upper bound of a RAND royalty for Motorola's 802.11 SEP portfolio is 19.5 cents per</li> <li>unit; and the lower bound is 0.8 cents per unit. This rate and range are applicable to</li> <li>Microsoft Xbox products. For all other Microsoft products using the 802.11 Standard, the</li> <li>royalty rate will be the low bound of 0.8 cents per unit.</li> </ul>

**B. The Court's November 30, 2012 Order (ECF 607)**

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15	11/30/12	"As Microsoft has committed to accept a license on RAND terms for Motorola's
16	Order ECF 607,	entire H.264 standard essential patent portfolio, and the litigation is continuing to
17	at pp. 13-14	determine the details of such a license, it is now clear that at some point in the
18		future (either by agreement of the parties or by court adjudication) a license
19		agreement for the Motorola Asserted Patents will become a reality."

DATED this 19<sup>th</sup> day of August, 2013.

**RESPECTFULLY SUBMITTED,**

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**CERTIFICATE OF SERVICE**

I, Florine Fujita, swear under penalty of perjury under the laws of the State of Washington to the following:

1. I am over the age of 21 and not a party to this action.
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DATED this 19th day of August, 2013.

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